

A REPORT  
TO THE  
ARIZONA LEGISLATURE

Accounting Services Division

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Status Review

# Concho Elementary School District No. 6

As of October 4, 2007

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**Debra K. Davenport**  
Auditor General

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AUDITOR GENERAL

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**OFFICE OF THE**  
**AUDITOR GENERAL**

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

January 31, 2008

Governing Board  
Concho Elementary School District No. 6  
P.O. Box 200  
Concho, AZ 85924-0200

Members of the Board:

In our December 15, 2006, compliance review report, we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR) for the year ended June 30, 2005. The District was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the District's internal controls as of October 4, 2007. Our review covered the deficiencies we had previously communicated to management and deficiencies included in the District's June 30, 2006, audit reports and USFR Compliance Questionnaire, as well as other internal control deficiencies we were aware of at the time of our review. The purpose of our status review was to determine whether the District was in substantial compliance with the USFR as of the date of our review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

We acknowledge the District's diligence in substantially correcting its deficiencies. As a result, the District has complied with the USFR. However, we must emphasize that a number of deficiencies still exist. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls and to continue to comply with the USFR. We have communicated specific details for all deficiencies to management for correction.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport  
Auditor General

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# INTRODUCTION

Concho Elementary School District No. 6 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$2.8 million it received in fiscal year 2006 to provide this education.

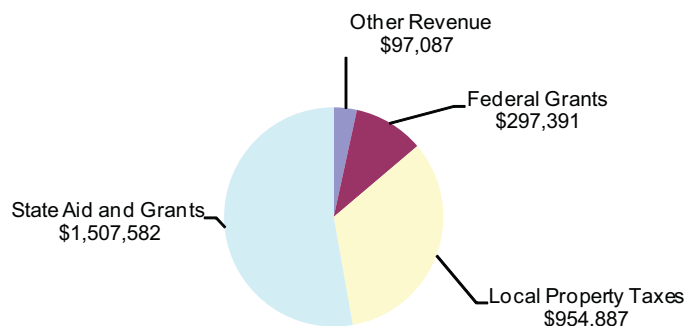
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District complied with the USFR. However, we noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to continue to comply with the USFR. Our recommendations are described on the following pages.

## District Facts Fiscal Year 2006

County: Apache  
Number of Schools: 1

Number of Students: 175  
Grade Levels: K-8



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2005-2006 and Concho Elementary School District No. 6 Report on Audit of Financial Statements and Report on Internal Control and on Compliance for the Fiscal Year Ended June 30, 2006.*

# The District should improve controls over purchasing and expenditures

The District spends public monies to purchase goods and services, so it is essential that the District follows procedures designed to help ensure that it receives the best possible value for the public monies it spends and that its expenditures are properly approved and supported. USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors to help ensure that districts receive the best possible value. However, the District did not always follow the USFR guidelines since it did not always obtain oral or written price

The District did not always follow competitive purchasing requirements and, therefore, could not ensure it received the best value for the public monies it spent.

quotations for purchases that required them. In addition, the District did not always ensure sufficient cash was

available in cash-controlled funds before approving expenditures and did not always maintain documentation to support that expenditures were paid in the appropriate fiscal year. Also, the District did not always maintain sufficient documentation to support that travel reimbursements did not exceed the maximum reimbursement rates established by the Arizona Department of Administration (ADOA). Further, the District did not always make credit card payments in a timely manner and, as a result, incurred a late fee and finance charge.

Finally, the District made expenditures from its Maintenance and Operation (M&O) Fund revolving bank account that appeared to constitute gifts of public monies, such as prizes for students and food for teachers, staff, and Governing Board members. Also, the District did not always retain documentation to support that credit card purchases were for appropriate district purposes.

## Recommendations

To strengthen controls over purchasing and expenditures, the District should follow the policies and procedures listed below:

- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases estimated to cost at least \$15,000 but less than \$33,689. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Verify that sufficient cash is available in cash-controlled funds before approving expenditures from those funds.

USFR pages VI-G-8 and 9 provide guidelines for competitive purchases below the dollar limits required for sealed bids.

- Prepare and retain receiving reports for all goods and services to ensure expenditures are recorded and paid in the appropriate fiscal year. Include amounts billed for goods or services received by June 30 but not yet paid in the District's Advice of Encumbrance and pay them within the 60-day encumbrance period following June 30. Only amounts billed for goods or services received after June 30 should be recorded and paid in the next fiscal year.
- Review travel claims to ensure that travel expenditures are appropriate and within the maximum reimbursement rates set forth by the ADOA.
- Make credit card payments on time to avoid finance charges and late fees.
- Ensure that public monies are not spent for the benefit of private individuals unless there is a public purpose served by the expenditure and the value expected to be received is not far exceeded by the amount paid. The Governing Board must ensure that expenditures do not violate the gift of public monies clause in the Arizona Constitution, Article 9, §7.

## The District's controls over cash receipts and bank accounts should be strengthened

The District receives cash from various sources, including student activities and other miscellaneous receipts, and maintains bank accounts to deposit the related receipts. Because of the relatively high risk associated with cash transactions, the District should establish effective internal controls to safeguard cash and ensure that bank accounts are used as authorized by statute. However, the District did not have effective controls over student activities cash receipts and the M&O Fund revolving bank account. Specifically, the District did not always reconcile items sold to cash collected for student activities events. Also, student activities monies were not deposited for over 3 weeks. Further, the District did not use its M&O Fund revolving bank account as prescribed by statute since employees deposited miscellaneous receipts into the account. As a result, the account balance exceeded the \$3,000 amount approved by the Governing Board.

The District did not use its Maintenance and Operation Fund revolving bank account as prescribed by statute.



## Recommendations

The following procedures can help the District strengthen controls over cash receipts and bank accounts:

### *Student Activities cash receipts*

- Prepare activity or cash collections reports to document sales and reconcile tickets or items sold to cash collected. For student activities events where it is not practical to determine the items sold, such as bake sales, clubs must still prepare a cash collection report to document cash collected.
- Investigate and resolve all differences noted on activity or cash collection reports.
- Ensure that student activities monies are deposited intact daily, if significant, or at least weekly.

### *M&O Fund revolving bank account*

- Operate the revolving bank account on an imprest basis. Monies in the bank, plus the total of paid invoices and bank service charges, should equal the authorized revolving account imprest amount.
- Ensure the revolving bank account is used only for activities that require immediate cash outlay, such as postage, freight, travel, and other minor disbursements.
- Replenish the revolving bank account only by warrants drawn on the County Treasurer. Do not deposit cash receipts into the account.

### *Miscellaneous receipts*

- Establish a miscellaneous receipts clearing account to deposit miscellaneous monies the District receives or deposit these monies directly with the County Treasurer.

USFR page VI-C-5 describes miscellaneous receipts clearing account procedures.

## The District should maintain accurate financial records

The District's Governing Board depends on accurate information so it can fulfill its oversight responsibility. To achieve this objective, management should ensure that its

accounting records are accurate and complete, and that transactions are properly recorded. However, the District did not fully accomplish this objective since it did not record all transactions in accordance with the USFR Chart of Accounts. In addition, several fund names in the District's accounting records did not agree with the Chart of Accounts or the County School Superintendent's records.

The District did not always record transactions properly in its accounting records.

## Recommendations

To help record accurate financial information, the District should ensure transactions are recorded in accordance with the USFR Chart of Accounts. In addition, to help ensure consistency between the District's and the County School Superintendent's records, the District should make sure that fund names and numbers agree.

## The District should ensure the accuracy of its student attendance records

The State of Arizona provides funding to school districts based on student membership and attendance. In turn, the State requires school districts to maintain accurate attendance records to help ensure that districts receive the appropriate amount of state aid and local property taxes. However, for most students tested, the District's computerized attendance system did not agree to the teachers' attendance registers and sign-in and sign-out logs. In addition, the District took attendance only once a day; however, attendance was reported based on quarter days.

## Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should ensure that computerized attendance records agree to teachers' attendance registers and sign-in and sign-out logs, investigate all differences, and make appropriate corrections promptly. In addition, the District should take attendance four times a day if attendance for all students in the school is based on quarter days.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.